



Office of the City Auditor

Purchasing Card Follow-up Audit Report No. 0304

February 13, 2004

Significant progress has been made in strengthening the Purchasing Card Program. However, additional management attention is needed to enhance the process to cancel cardholder privileges and train supervisors.

CITY COUNCIL

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February 13, 2004

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is a report on the evaluation of actions taken related to the City of Scottsdale Purchasing Card Program since the release of Report No. 9960.B on April 18, 2000. Staff in the Purchasing Division was very cooperative during our audit and we would like to thank them for their assistance.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

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EXECUTIVE SUMMARY

A Purchasing Card Follow-up Audit was included on the Audit Plan for 2002/2003. The work was undertaken to determine the status of the recommendations outlined in the Purchasing Card Audit No. 9600.B released in April 2000.

The Financial Services Department has made significant progress in strengthening the Purchasing Card Program (Program). Our work found sufficient modifications and enhancements in place to allow us to reach a conclusion that six of the nine recommendations were closed. One recommendation, to develop a list of approved hazardous materials, is no longer relevant due to a change in how these purchases are controlled.

We found that Administrative Regulations (ARs¹) related to, or impacted by, the use of purchasing cards (card) were modified and expanded. Additional language was added to clarify when the card can be used for commodities such as information technology equipment and fuel. Prohibited use of the card for meals while traveling (if a per diem has been advanced) or to purchase items such as alcoholic beverages and tobacco was documented. Changes now allow for the use of the card to obtain and pay for goods and services through the Internet and the "Purchasing Card Program" guide (guide) was expanded to provide instruction on how to ensure a website is secure.

Oversight of the Program was strengthened by adding requirements for review at the departmental level and a Purchasing Technician (Technician) now conducts routine audits of purchases to ensure adequate documentation and adherence to Program guidelines.

While the changes made since 2000 have resulted in a higher level of control, there are two recommendations that we still consider open.

1. The need to ensure that terminated employees are immediately deleted from the Program.
 - While we found no instance in which a current cardholder was not an active employee or situations in which charges were made after a cardholder left City employment, we did find three terminated employees among the list of supervisors. We also found that a formal procedure does not exist to periodically verify that all cardholders and supervisors continue to be City employees.

¹ Formerly Administrative Guidelines.

2. The need for specialized training to address the role and responsibility of supervisors.
 - Training is provided for cardholders and a Purchasing Card Agreement Form (Agreement) is signed. There is no training curriculum geared specifically to supervisors, and these individuals do not sign anything to signify that they understand the responsibility to review transactions. While supervisors are invited to attend training sessions offered to cardholders, information presented does not address specific management responsibilities for oversight of the Program. As a result, supervisors may not obtain a sufficient understanding of the responsibilities for oversight of purchases.

To conduct this follow-up audit, we conducted random samples of transactions, cardholder activity, documentation, and training records to determine the level of compliance. We reviewed selected transactions that appeared unusual and tested the list of current cardholders to verify that individuals listed were still employed by the City. We found no instance in which a purchase was questionable. But, we did find some minor exceptions that were discussed with management. These included:

- One instance in which a receipt for food listed the phrase "setup and delivery." We could not tell, based on the information, whether or not the vendor actually setup the food or simply delivered it to a City facility.
- Nine cases in which detailed food merchant receipts were not part of the documentation. Procedures require the submission of the detailed receipt to provide information about what was purchased. In some situations, the vendor may provide one copy that lists the total purchase that is signed by the cardholder and another copy that lists the items purchased. Providing the signed copy will support the total charged to the card but will not provide sufficient information to allow a determination that the purchase was valid.
- Seven instances in which sufficient documentation was not included or all required signatures were not present in the reconciliation packet (packet).

While completing this audit, we found two items that we believe warrant the attention of management. First, the Procurement Code is still silent on the use of the card as a purchasing alternative. Second, the Environmental Planner in Preservation is not conducting routine audits on the purchases of hazardous materials made with the card.

At the conclusion of the audit, Purchasing and Financial Services management were provided a copy of the report for review and comment. The

Action Plan below outlines recommendations still open and a summary of management responses. The full response is included in Appendix A.

ACTION PLAN

No.	Recommendations
	We recommend the Purchasing Director:
1.	<p>Develop and publish steps necessary to change or cancel a cardholder's privilege. Steps should include responsibility of the cardholder, supervisor, and Technician to:</p> <ul style="list-style-type: none"> • Communicate notification of changes and timeframe for actions. Method of communicating information should be defined. • Destroy the card. • Handle reconciliation of final transactions.
	<p>Concur. The Purchasing Technician has developed procedures to cancel a cardholders privilege. These procedures have been written into Procedures Manual and have been updated on the Purchasing Card Training Manual. These procedures will be published as soon as the new purchasing card provider is determined. Responsible Party: Purchasing Technician Completed By: 06/30/2004</p>
2.	<p>Establish a process to receive and review the Personnel Action Report on a bi-weekly basis to update Program participants.</p>
	<p>Concur. The Purchasing Technician now receives and reviews the Personnel Action Report on a bi-weekly basis. The receiving of the report was only stopped for a short time due to the retirement of the previous Purchasing Card Administrator. Responsible Party: Purchasing Technician Completed By: 10/13/2003</p>
3.	<p>Develop and implement a training session specifically designed for supervisors.</p>
	<p>Concur. The Purchasing Technician has developed a web based training program for supervisors. The training program will be implemented after a new purchasing card provider has been determined and when Information Systems is available for assistance. Responsible Party: Purchasing Technician Completed By: 09/30/2004</p>
4.	<p>Develop a Management Agreement form outlining supervisor's responsibilities and require all Program supervisors to sign the form.</p>
	<p>Concur. The Purchasing Technician has developed a Supervisor's Agreement. This Agreement outlines all responsibility for the supervisor to validate monthly Purchasing Logs and documentation. This Agreement will be implemented along with the purchasing cardholder training. Responsible Party: Purchasing Technician Completed By: 09/30/2004</p>

BACKGROUND

The City's Program was initiated in 1995 in an effort to create a more efficient, cost-effective method of purchasing small dollar transactions and high volume repetitive purchases. The Program was also expected to produce efficiencies at the front line by allowing work units to purchase needed items in a timely manner. In April 1995, approximately 450 cards were in use.

Between 1995 and 2002, the number of cards issued increased to approximately 530. At the beginning of 2002, the Purchasing Division sought to obtain the right balance between the controls necessary to manage the expenditures made with the cards and the efficiencies in service delivery. In May 2002, City management re-evaluated the Program and all issued cards were recalled. Department managers were instructed to justify the need for any card that would be issued giving thought to what would be purchased, what was purchased in the past, and the impact to the work unit if a new card was not issued.

The Purchasing Division established new guidelines for the Program and updated the guide before new cards were issued. Product categories were set up, high visibility purchases for items such as food and travel were restricted, fuel purchases were redirected to specific locations, and use of the card for purchases of hazardous products was limited. To provide a higher level of oversight, changes were implemented to require the submission of Purchasing Card Transaction Logs and receipts to Purchasing, and the Technician routinely conducts audits of transactions. ARs addressing travel, business meal expenses, and other related activities were expanded and updated to reflect changes, specific responsibilities, and appropriate use of the card.

The Purchasing Director reviewed the justification submitted with each request for a new card. When a request was approved, single transaction limits² as well as cycle limits³ were set to control the dollars that could be charged to the card. Limits, ranging from a single transaction of \$250 to a cycle amount of \$10,000, were set based on projected need. Four cards with \$20,000 cycle limits were issued to Purchasing Agents for transactions handled by the Purchasing Division. Before a new card was distributed, the cardholder was required to sign an Agreement outlining the appropriate uses of the card and the responsibilities associated with the supervisor approving purchases made with the card.

² Single transaction limit is the amount that could be spent for a single transaction.

³ Cycle limit is the total amount that can be charged to a card during the billing cycle.

Each month the cardholder receives a statement listing the purchases made with the card. Procedures require that the cardholder reconcile the statement to purchases made. To complete the reconciliation, the cardholder prepares a Purchasing Card Transaction Log that lists:

- The transaction date.
- Vendor (Merchant's) name.
- Amount of transaction.
- Description of purchase.
- Fund, Center, and Account to be charged.
- Work order or project number, if needed.

When the reconciliation is complete, the cardholder attaches all receipts,⁴ signs and dates the form, and submits it to the cardholder's supervisor for review and approval. The supervisor then signs and dates the form as evidence of review and the packet is forwarded to Purchasing.

The automated payment process is one of the features that make the Program more cost-effective. Each month, when the payment to the credit card vendor is due, one electronic transfer is made to pay all cards issued in the City's name. Purchases are recorded to the appropriate work area based on a default fund, center, and account setup when the card was approved. If a transaction needs to be reflected in a different center or account, the cardholder is required to complete a Request for Adjustment form and send a copy to Purchasing and the original to Accounts Payable. Purchasing files the adjustment form with the receipt for the transaction, and Accounts Payable processes the journal entry to make the necessary adjustment to charges for the center or account number.

Bank of America, the credit card provider, has a web-based application known as "Eagls" that is used to administer the Program. This application provides the Technician with the ability to review spending reports, modify the default fund, center, and account for each cardholder, change limits, request new cards, or cancel existing accounts. Access to this application is password protected and limited to the Purchasing Director, Technician, and Purchasing Systems Integrator.

The Technician also maintains an Access database with additional information not available in "Eagls." This database contains all cardholder names, fund, center, account numbers, supervisor's name, single transaction, cycle dollar limits, approved use product categories, and department.

⁴ Procedures require a detailed merchant receipt that itemizes the items purchased instead of the charge receipt.

STATUS OF RECOMMENDATIONS

INITIATE REVISIONS TO THE CITYWIDE ADMINISTRATIVE GUIDELINES AS THEY RELATE TO OR ARE IMPACTED BY THE PURCHASING CARD.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Closed

ARs that relate to or impact the Program were revised and expanded. Modifications and expansion has strengthened controls by enhancing oversight, requiring audits, and setting conditions for use of the card.

RECONSIDER RESTRICTIONS ON PURCHASING CARD USAGE.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Closed

ARs now prohibit use of a card to purchase items such as: alcoholic beverages, leasing/rental of services or commodities, tobacco, professional services, meals (if per diem has been advanced to the traveler), and fuel (unless out of town, using an authorized rental vehicle, or in an emergency).

DEVELOP AN APPROVED PRODUCT LIST FOR HAZARDOUS MATERIALS.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Recommendation no longer applicable.

The process in which hazardous materials are purchased has changed. Departments now register approved cardholders with the Environmental Planner in Preservation to purchase hazardous material. The Environmental Planner has the responsibility to monitor the types of hazardous products purchased by the City, collect the Hazardous Potential Purchase Exception Report (HPPER) documentation, if necessary, and notify Purchasing of authorized cardholders.

Purchasing's responsibility is to confirm that the name of an individual purchasing hazardous materials is listed on the "Pro-Card Approved Chemical Purchases List" maintained by the Environmental Planner.

EXPAND THE USE OF THE INTERNET PROCEDURES TO DETERMINE REPUTABLE VENDORS WITH SECURE SITES AND PROVIDE APPROPRIATE TRAINING FOR CARDHOLDERS.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Closed

Reputable vendors were not identified for cardholders use. Instead, instructions and examples were documented in the guide to show cardholders how to determine if a website is secure. The training curriculum is based upon the guide.

ESTABLISH PROCEDURES FOR PROCURING FOOD AND CATERING SERVICES AND RENTAL OF VEHICLES.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Closed

AR 205, "Business Meeting Expenditures," was expanded to include when City funds can be used for food and beverages. The card cannot be used if the food will need to be setup or served by individuals outside the City (i.e., catered).

AR 210, "City Travel Expenditures," was expanded to require an analysis be performed on the cost of all potential transportation options. Documentation must be maintained supporting the need for a rental car and that the best rate was obtained.

CLARIFY THE INTENT OF THE PROCUREMENT CODE AND REQUIRE THE DEVELOPMENT AND PERIODIC UPDATING OF DEPARTMENT SPECIFIC PROCEDURES.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Closed

Changes in the Program included strengthening and expanding ARs to identify prohibited purchases and monthly auditing of card packets by Purchasing. Modifications to the ARs have increased controls to restrict the use of the card and increased the level of department management responsibility and oversight.

DEVELOP AND REQUIRE SUPERVISORS TO ATTEND A TRAINING PROGRAM OUTLINING SUPERVISOR RESPONSIBILITY AND REQUIRE ALL CARDHOLDERS TO RECEIVE BASIC TRAINING.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Still open

Purchasing requires all cardholders to attend a training session prior to issuance of a card. Supervisors are invited to attend the same training session; but a training curriculum specifically designed to outline supervisor responsibilities has not been developed. Documentation supporting training attendance by supervisors has not been maintained in a fashion to determine if a supervisor attended training. We did, however, find that a new process for tracking training was in the infancy stage of development.

REQUIRE SUPERVISORS TO FOLLOW UP AND DOCUMENT STEPS TO REINFORCE COMPLIANCE.

Management Response: Agree

Status at April 18, 2000: Planned

Status at January 5, 2004: Closed

Modifications to the Program require supervisory review of a cardholder's transactions. The supervisor, as evidence of review, signs the Transaction Log. If the Technician finds insufficient information, notification is sent to the cardholder and supervisor. Training is recommended if consistent problems are noted.

IMPLEMENT A PROCEDURE TO PERIODICALLY VERIFY THAT PURCHASING CARDS ISSUED TO TERMINATED EMPLOYEES WERE CANCELLED.

Management Response: Agree

Status at April 18, 2000: Underway

Status at January 5, 2004: Still open

Cardholders or supervisors either e-mail or telephone the Technician and advise of a change in cardholder privileges. The Technician no longer receives the Personnel Action Reports generated by Human Resources. A documented process or form for communicating cardholder terminations, departmental transfers, or retirements does not exist.

SCOPE AND METHODOLOGY

The objective of the Purchasing Card Follow-up Audit was to evaluate the actions taken in response to recommendations outlined in the Purchasing Card Audit released April 18, 2000.

The scope was limited to changes to the Program since release of the audit. Testing took place October through December 2003.

We reviewed the ARs, Procurement Code, and guide to determine the policies and procedures related to the card. We interviewed the Purchasing Director and Technician to gain an understanding of modifications made to the Program since the last audit. We also made inquiries into departmental specific policies and reviewed those related to the Program.

We completed the following six tests:

- Bank of America statements were reviewed to determine if accounts of individuals, whose privileges were revoked, contained posted transactions. Purchasing provided the Bank of America statements and the folder containing documentation of individuals whose privileges were revoked between December 19, 2001, and November 6, 2003.
- For the period of November 13, 2002, through January 12, 2003, all transactions related to, or appearing to relate to, food purchases (with the exception of grocery stores and fast food franchises) were reviewed to verify that catering charges were not billed to the City.
- A random sample of cardholder transactions was selected for the period of November 13, 2002, through January 12, 2003. The packets containing these specific transactions were reviewed for the existence of the cardholder signature, supervisor approval, and all supporting documentation.
- Bank of America transaction logs for the period of November 13, 2002, through January 12, 2003, were reviewed to collect a sample of merchants whose names appeared unusual. Documentation supporting these specific merchant transactions was reviewed to determine the business reason for the transaction.

- To verify that terminated employees are removed as a cardholder or supervisor, we obtained a list of participants as of October 8, 2003, from the Technician. We also obtained a list of active employees from the Payroll division. Then we compared the list of current cardholders and supervisors to the list of active employees.
- To determine if all cardholders and supervisors had attended a training session, the Technician was asked to provide a list of all current cardholders and supervisors and access to all training attendance logs. The Technician provided a list of Program participants on November 3, 2003. We manually searched training attendance logs for Program participant's names.

Mary Modelski was the auditor who completed this assignment. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, §2-117, *et. seq.*

APPENDIX A

MANAGEMENT RESPONSE



Purchasing

9191 E. San Salvador
Scottsdale, AZ 85258

February 12, 2004

Cheryl Barcala, City Auditor
7440 E. First Avenue
Scottsdale, AZ 85251

RE: PURCHASING CARD FOLLOW-UP – CITY AUDITOR REPORT NO. 0304

Dear Ms. Barcala:

We are in receipt of Report No. 0304 entitled Purchasing Card Follow-up Audit and concur with the status of recommendations. We want to thank you and your staff for their efforts on this audit.

Sincerely,

A handwritten signature in cursive script that reads "Monroe C. Warren".

Monroe C. Warren, CPPO
Purchasing Director

MCW:bm